

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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R 261922Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3204

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

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AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 15868

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING SEPT 25)

REF.: BONN 14111 AND 14307

1. FOREIGN EXCHANGE MARKET: THE DOLLAR STRENGTHENED
CONSIDERABLY ON GERMAN FOREIGN EXCHANGE MARKETS. THE
GERMAN FINANCIAL PRESS ATTRIBUTED THE DOLLAR
STRENGTHENING TO FAVORABLE PROSPECTS FOR THE U.S. ECONOMY,
THE LOW GERMAN TRADE SURPLUS FOR AUGUST AND THE
INTEREST DIFFERENTIAL BETWEEN U.S. AND GERMAN MONEY
MARKETS. DURING THE REPORTING WEEK FRANKFURT SPOT AND
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FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)

SPOT DOLLARS ONE-MONTH THREE-MONTH

SEPT 19	DM 2.6335	-3.2	-4.1
22	2.6435	-2.7	-3.9
23	2.6750	-2.9	-3.7
24	2.6670	-2.7	-3.7
25	2.6635	-2.7	-3.5

WITHIN THE JOINT FLOAT THE NORWEGIAN CROWN REMAINED THE
WEAKEST CURRENCY, ALL OTHER FLOAT CURRENCIES REMAINED
ABOVE THEIR DM CENTRAL RATES.

2. MONEY MARKET: THE GERMAN MONEY MARKET REMAINED
RATHER TIGHT WITH MONEY RATES BEING ABOVE THE 3 1/2
PERCENT REDISCOUNT RATE. THE DOLLAR SALES OF THE BUNDES-
BANK WERE A FACTOR CONTRIBUTING TO THE TIGHTNESS.
DURING THE REPORTING WEEK FRANKFURT INTER-BANK RATES
DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH
MONEY

SEPT 19	4.3-4.4	3.6-3.8	3.5-4.0
22	4.4-4.5	3.6-3.8	3.6-3.9
23	4.5-4.6	3.7-4.0	3.8-4.0
24	4.5-4.6	3.7-4.0	3.8-4.0
25	4.5-4.6	3.7-4.0	3.8-4.0

3. MONEY SUPPLY: IN JULY THE NARROWLY DEFINED MONEY
SUPPLY (M1) INCREASED BY DM 0.9 BILLION AND THE WIDELY
DEFINED MONEY SUPPLY (M2) BY DM 2.9 BILLION. THIS WAS
THE FIRST INCREASE OF M2 THIS YEAR. ON A SEASONALLY-
ADJUSTED BASIS M1 ROSE BY DM 2.9 BILLION AND M2 BY
DM 3.7 BILLION. DURING THE LAST THREE MONTHS (ON A
SEASONALLY-ADJUSTED BASIS AND AT ANNUAL RATES) M1
INCREASED BY 7.8 PERCENT AND M2 BY 0.8 PERCENT. THE
ACCELERATION IN THE MONETARY EXPANSION IN AUGUST WAS
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MAINLY THE RESULT OF THE SUBSTANTIAL DM 9.5 BILLION
INCREASE IN BANK CREDITS GRANTED TO PUBLIC AUTHORITIES.
THIS MONTHLY FIGURE IS ABOUT HALF OF THE VOLUME OF
SUCH CREDITS EXTENDED IN THE FULL YEAR 1974 AND ALMOST
AS HIGH AS THAT EXTENDED ANNUALLY IN THE THREE YEARS
BEFORE 1974. THE EXTENSION OF BANK CREDITS TO THE
PRIVATE SECTOR OF THE ECONOMY REMAINED LOW. DURING
AUGUST THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE

MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1974
AUG. JULY AUG.		
BANK LENDING TO DOMESTIC NON-		
BANKS	9.4	3.4 4.6
NET EXTERNAL ASSETS OF BANKS		
(INCL.BUNDESBANK)	2.0	0.6 -1.0
SAVINGS DEPOSITS AND SAVINGS		
BONDS	4.9	3.5 1.6

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R 261922Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3205

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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TIME DEPOSITS (1) AND OUT-

STANDING BANK BONDS (2) 1.2 1.5 2.1
 OFFICIAL ASSETS HELD AT
 CENTRAL BANK 3.9 -2.3 0.8
 OTHER 1.7 -2.2 -0.3
 MONEY SUPPLY (M2) 2.9 -0.9 -1.2
 OF WHICH: CURRENCY IN
 CIRCULATION AND
 SIGHT DEPOSITS (M1) 0.9 0.1 -1.3
 TIME DEPOSITS WITH
 MATURITIES UP TO
 4 YEARS 2.0 -1.0 0.1
 (1) WITH MATURITIES OF 4 YEARS AND MORE.
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(2) EXCLUDING BONDS HELD BY BANKS.

4. BUNDESBANK FOREIGN POSITION: IN THE SECOND WEEK OF SEPTEMBER (SEPTEMBER 8-15) THE BUNDESBANK'S NET FOREIGN POSITION REMAINED UNCHANGED AT DM 80.2 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE INCREASED BY DM 102 MILLION AND CREDITS TO THE IBRD BY DM 28 MILLION. GROSS LIABILITIES ROSE BY ABOUT DM 130 MILLION.

5. BANK LIQUIDITY: IN THE SECOND WEEK OF SEPTEMBER BANK LIQUIDITY DECLINED BY DM 1.2 BILLION. THE PRINCIPAL FACTOR REDUCING LIQUIDITY WERE PAYMENTS FOR THE MAJOR MID-SEPTEMBER TAX DATE INCREASING OFFICIAL ASSETS HELD AT THE BUNDESBANK BY DM 3.4 BILLION. LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 1.4 BILLION) AND BUNDESBANK BOND PURCHASES ON THE OPEN MARKET (DM 0.5 BILLION). OTHER FACTORS (NET) INCREASED LIQUIDITY BY DM 0.3 BILLION. THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING REDISCOUNT BORROWINGS BY DM 0.5 BILLION AND SELLING DM 0.7 BILLION OF BILLS TO THE BUNDESBANK UNDER THE SPECIAL 10 DAY FACILITY.

6. BOND MARKET: THE BUNDESBANK'S PURCHASES OF PUBLIC BONDS ON THE OPEN MARKET INCREASED AGAIN DURING THE REPORTING WEEK, REACHING ABOUT DM 250 MILLION AS COMPARED WITH DM 60 MILLION DURING THE PREVIOUS REPORTING WEEK. FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PCENT 6 PERCENT

SEPT 19	8.95	9.02	8.56
22	8.96	9.02	8.59
23	8.97	9.02	8.61
24	8.96	9.04	8.61

25 8.95 9.05 8.61

DESPITE THE MORATORIUM ON BOND FLOATATIONS BY NON-BANKS
INTRODUCED IN LATE JULY SALES OF DOMESTIC BONDS IN
AUGUST REACHED DM 5.1 BILLION AS COMPARED WITH
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DM 5.9 BILLION IN
JULY. THE BULK OF THE BONDS (DM 4.4 BILLION) WERE BANK
BONDS BY MORTGAGE BANKS, THE REGIONAL INSTITUTIONS OF
THE SAVINGS BANKS (GIROZENTRALEN) AND SPECIALIZED BANKS.
THE REMAINDER WERE MEDIUM-TERM FEDERAL GOVERNMENT NOTES
(DM 0.5 BILLION) AND FEDERAL SAVINGS BONDS (DM 0.2
BILLION). MORE THAN HALF OF THE BANK BONDS WERE
COMMUNAL BONDS ISSUED PRINCIPALLY FOR THE
REFINANCING OF BANK CREDITS TO COMMUNITIES. ABOUT TWO
THIRDS THEREFORE OF AUGUST BOND SALES SERVED THE
FINANCING OF DEFICITS OF PUBLIC AUTHORITIES. ABOUT
HALF OF ALL BONDS SOLD IN AUGUST (DM 2.3 BILLION)
CARRIED MATURITIES OF LESS THAN 4 YEARS. THIS IS THE
LARGEST MONTHLY AMOUNT OF BONDS WITH SUCH SHORT MATU-
RITIES EVER SOLD.

6. SALES OF FEDERAL GOVERNMENT PROMISSORY NOTES
ABROAD: ACCORDING TO A REPORT IN BLICK DURCH DIE
WIRTSCHAFT (AN ECONOMIC SUPPLEMENT OF THE FAZ) AND
DATELINED ZURICH PROMISSORY NOTES OF THE FEDERAL GOVERN-
MENT, GERMAN STATE GOVERNMENTS AND GERMAN GIROZEN-
TRALEN ARE BEING OFFERED ABROAD. THE NOTES CARRY
MATURITIES OF 3 TO 5 YEARS AND YIELD MORE THAN 8 PER-
CENT. THEY ARE TAKEN OVER BY FOREIGN BANKS BUT ARE
APPARENTLY NOT YET FINALLY PLACED BY THESE BANKS.
ACCORDING TO THE REPORT THE INTEREST OF FOREIGN
INVESTORS FOR SUCH NOTES IS DECLINING.

7. BUNDESTAG PASSES DM 5.75 BILLION STIMULATION
PROGRAM: THE GOVERNMENT'S DM 5.75 BILLION "STIMU-

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INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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R 261922Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3206

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

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LATION PROGRAM", DESIGNED PRIMARILY TO AID THE AILING CONSTRUCTION INDUSTRY AND HELP ALLEVIATE UNEMPLOYMENT PARTICULARLY NEXT WINTER, WAS PASSED BY THE BUNDESTAG UNANIMOUSLY ON SEPTEMBER 25. DETAILS OF THE PROGRAM, WHICH IS NOW OFFICIALLY IMPLEMENTED, ARE CONTAINED IN BONN 14111.

8. BUNDESTAG PASSES SUPPLEMENTARY BUDGET FOR 1975: ON SEPTEMBER 26, THE BUNDESTAG PASSED, AGAINST THE VOTES OF THE OPPOSITION, THE SUPPLEMENTARY BUDGET FOR 1975 RAISING BUDGETED EXPENDITURES FOR THE YEAR TO DM 161.5 BILLION. THE SECOND READING OF THE SUPPLEMENTARY BUDGET IN THE BUNDESRAT, THE LAST STEP IN THE UNCLASSIFIED

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LEGISLATIVE PROCESS PRIOR TO SIGNATURE, IS SCHEDULED FOR OCTOBER 17. A BREAKDOWN OF TOTAL EXPENDITURES UNDER THE ORIGINALLY APPROVED 1975 BUDGET PLUS THE SUPPLEMENTARY BUDGET IS CONTAINED IN BONN 14307.

9. ECONOMIC INDICATORS PUBLISHED THIS WEEK: THE IFO BUSINESS SURVEY DATA RELEASED THIS WEEK INDICATE THAT THE UNFAVORABLE BUSINESS SITUATION IN THE MANUFACTURING SECTOR FAILED TO IMPROVE IN AUGUST. GIVEN PERSISTENTLY LOW ORDER LEVELS, FURTHER PRODUCTION CUTBACKS PREVAILED. EXPECTATIONS FOR THE NEXT SIX MONTHS HAVE IMPROVED SOMEWHAT, REFLECTING LESS PESSIMISTIC APPRAISALS OF EXPORT PROSPECTS AS WELL AS THE GOVERNMENT'S STIMULATION EFFORTS. HOWEVER, THE MAJORITY OF THE RESPONDENTS STILL SAW NO IMPROVEMENT OR EVEN SAW A WORSENING OF THE PROSPECTS. THE NUMBER OF FIRMS FORESEEING A FURTHER DETERIORATION OF BUSINESS DEVELOPMENTS AND CURTAILMENT OF PRODUCTION HAS DECLINED, BUT STILL THE BULK OF THOSE SURVEYED INDICATED NO CHANGE OR FORESAW EVEN FURTHER CUTBACKS IN PRODUCTION PLANS. IN THE CONSTRUCTION SECTOR, THE SLIGHT IMPROVEMENT OF THE BUSINESS CLIMATE CONTINUED IN AUGUST. THE CURRENT SITUATION IS STILL POOR, BUT THE DM 5.75 BILLION STIMULATION PROGRAM HAS HELPED IMPROVE APPRAISALS OF FUTURE TRENDS. WHOLESALE DEVELOPMENTS IN AUGUST WERE DECIDEDLY LESS FAVORABLE THAN AT THE SAME TIME IN EARLIER YEARS; ALSO LONGER TERM PROSPECTS CONTINUE DIM. RETAILERS' APPRAISAL OF CURRENT TRENDS DIPPED IN AUGUST, BUT COMING MONTHS ARE EXPECTED TO BRING RESUMPTION OF EARLIER "NOT UNFAVORABLE" TRENDS. THE NUMBER OF NEW PASSENGER CARS REGISTERED IN AUGUST 1975 CAME TO 119,604, AS COMPARED WITH 175,592 IN JULY 1975 AND 106,191 IN AUGUST 1974.

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